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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [UK](#)
SUBJECT: DEPSEC TREASURY DISCUSSES FINANCIAL MARKETS, IRAN
SANCTIONS WITH HM TREASURY CHIEF SECRETARY COOPER

Classified By: A/EMIN Sandra Clark, Reason 1.4 b & d

11. (C) Summary. Deputy Treasury Secretary Kimmitt outlined on March 10 to Yvette Cooper, British Treasury Deputy Secretary-equivalent, USG efforts to stimulate the U.S.

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economy and address problems in the U.S. housing market. Cooper described efforts to revitalize the securitization market and asked for USG views on IMF reform, including a greater IMF surveillance role. Also discussed were the proposed British tax on non-domiciles, cooperation within Europe on Iran sanctions and sovereign wealth funds. The Deputy Secretary's other meetings in London are reported septel. End summary.

12. (SBU) Deputy Treasury Secretary Kimmitt told Yvette Cooper, Chief Secretary to the Treasury, that the U.S. economic fundamentals remain strong, despite problems in the housing and financial markets. Growth is expected to be positive this year, although it is slowing, especially in the current quarter. He outlined the USG stimulus package, as well as efforts by both the government (such as HOPE Now and Project Lifeline) and the private sector to help homeowners remain in their homes. The impact of these measures will be felt in the third quarter, he concluded.

13. (SBU) Cooper raised prospects for the revitalization of the securitization market. HM Treasury, she said, is consulting with stakeholders to see if it is possible to develop "gold standard mortgage-based" securities to get the market going again. The question is how to do this without adversely affecting existing securities. A final decision on the way forward will not be ready until the pre-budget report next fall, she said. Revitalizing this market would not help with the current credit crunch, but may have a positive impact later, she continued. The Deputy Secretary replied that a similar idea has been under review in the United States. The conclusion at present is that the private sector will be able to identify solid securities as well as problems without a cooperative vehicle. He added that these issues will be addressed in the Financial Stability Forum (FSF) report, due to come out before the April World Bank/IMF Annual Meetings. The President's Working Group on Capital Markets will be releasing its report shortly and he offered to provide a copy to Cooper when it is released. Cooper commented on the significant role played by financing from the U.S. for mortgages in the UK. They agreed that U.S. Treasury and HM Treasury officials should keep in close touch on these issues.

14. (SBU) The Deputy Secretary raised the issue of the proposed tax on non-domiciles in the UK, noting that it raises many tax policy, tax interpretation and tax administration issues. Cooper replied that HMG wants to

avoid double taxation of American taxpayers. It wants to be sure that people will still be able to travel freely between the United States and the United Kingdom and that trade flows freely as well. The existing remittances process will remain, she said. Kimmitt noted that there had been discussions between British and U.S. tax policy experts and that the proposal raises very technical issues which experts need time to study. He suggested that there be greater care taken when speaking publicly. We can work together, he said, but we should not prejudge the final result until we see the details of the British tax law and have a chance to review their implications.

15. (SBU) Cooper then asked for the Deputy Secretary's views on what more the IMF and the FSF could do to provide an early warning of trouble in the financial sector. Kimmitt replied that we need to address what is urgent, while not forgetting to address what is important. The USG has called for reform of the IMF and believes that Dominique Straus-Kahn, its Managing Director, understands what that reform ought to be. He agreed on the need to make better and broader use of the IMF's surveillance capabilities, that it can help us "look ahead and around the corner" but this role should not distract the IMF from the urgent reform efforts. These reforms need to be properly sequenced. Cooper agreed that the IMF should not be distracted from its reform efforts, but noted the need for a better way to anticipate problems. Most observers did not anticipate the substantial and wide reaching consequences of the credit crunch, she said and suggested that the USG and HMG stay in close touch on these issues.

16. (S/NF) The Deputy Secretary then asked about EU views on financial sanctions against Iran, as well as Italy's hesitation to designate Bank Melli. He recalled then Chancellor Brown's 2006 speech in which he said that finance ministries needed to play a security role by stopping the

financing of terrorism and proliferation. Nicholas Joicey, Director, International Finance, replied that the UK was discussing Bank Melli with the Italians and others, and would like to work with the USG on this case. In response to a question on domestic reform, Joicey explained that the UK and the U.S. have different legal frameworks. The UK cannot at present designate a party for engaging in proliferation finance nor use classified materials in court cases although both issues are under review. The UK is doing as much as it can to thwart terrorist and proliferation finance, he continued. HM Treasury has created an asset freezing unit which froze more in the last year than in the previous five years combined. The Deputy Secretary noted the London financial sector wants to be as open and to be seen as open as possible, especially to Middle Eastern investors. However, those in the Gulf States are starting to recognize that it is not in their interest to see the financial system used for terrorism or proliferation finance purposes. Joicey replied that the UK is making these same points in its current role as president of FATF.

17. (SBU) Cooper told the Deputy Secretary that she appreciated his article on sovereign wealth funds ("SWF") in "Foreign Affairs" magazine, noting that she shared his views. Sovereign wealth funds were a topic of a recent ECOFIN meeting, she said. The Commission's views are broadly in line with the UK's. The majority of member states' views are in favor of SWF, although some member states have concerns about funds from individual countries, she said. The EU is engaged in international efforts to promote SWF transparency. She agreed with the Deputy Secretary on the need to distinguish between investments by state-owned enterprises, which may be politically motivated, and investments by SWF, which have been positive.

18. (U) Participants: USG: Deputy Secretary Kimmitt; Eric Meyer, Office Director for Europe; Robert Saliterman, Spokesman, International Affairs, U.S. Treasury; Sandra Clark, A/EMIN. UK: Yvette Cooper, Chief Secretary to the Treasury; Nicholas Joicey, Director, International Finance;

Robert Woods, Head of Global Economics Team, HM Treasury.

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